Wg | Weekly Gold Commentary | 2013

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MAIN TOPICS

- Gold prices hit a four month low.
- Chinese equities fall sharply.
- The Greek crisis continues.
- Demand for physical gold remains robust.

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Gold prices steadied above a four-month low on Friday, as the dollar tumbled against the euro on signs of renewed optimism that Greece may secure fresh funding from its' European creditors.

Gold prices fall to a four-month low.

After a broad based commodity sell-off on Tuesday which saw the price of gold fall more than 2% hitting a four month low of $1,145 an ounce, the price of the yellow metal ended up on the week to settle at $1162.80 per ounce.

The sell-off on Tuesday was precipitated by the collapse of Chinese equities. And, since China is the world's biggest importer of raw commodities, weaker growth expectations is spooking the markets and there seems to be spill over effect into precious metals.

The Shanghai Composite Index has now plummeted by around 30% since June 12. Chinese small-caps have fallen even harder. The ChiNext Index, which tracks mostly fast-growing Chinese tech companies, is down 40% from its all-time high set on June 3.

The Shanghai Composite Index has shed more than $3 trillion in asset value in less than a month. China's losses are double the size of Australia's entire stock market. However, it must be noted that Chinese stocks have risen 152% in the past twelve months before the crash began. But the problem is that more than 80% of the shares are owned by unsophisticated retail investors who buy on margin.

Since last Wednesday's stock market plunge, the Chinese stock market ended the week ahead. By Friday and the benchmark Shanghai Composite index had gained 5% from the previous Friday's close.

The increase followed a series of extraordinary interventions by the government. In an effort to prop up prices, Chinese regulators are trying every trick in the book to stop the crash. They've banned short selling. They've suspended all upcoming initial public offerings. And they've even halted trading on 51% of Mainland Chinese stocks. As a result, investors own $2.2 trillion worth of Chinese stocks that they cannot sell.

Even with the rebound, $3.1 trillion in market value, much of it financed with borrowed money, has been erased since mid-June. Many experts worry about the damage to the Chinese economy, particularly if stocks continue to fall. Consumer confidence could suffer, weighing on the country's growth and on economies elsewhere that depend on exports to China.

With regard to the Greek financial crisis and at the time of writing, Eurozone leaders met at a summit on Sunday. They told Greece that it must restore trust by enacting key reforms before they will open talks on a new financial rescue to keep it in the European currency area.

Greek Prime Minister Alexis Tsipras will be required to push legislation through parliament from Monday to convince his 18 partners in the monetary union to release immediate funds to avert a Greek state bankruptcy and start negotiations on a third bailout programme.

Some laws will have to be passed by Wednesday and the entire package endorsed by parliament before talks can start, one minister said.

Before the meeting began, German Chancellor Angela Merkel told reporters that the leaders would be considering whether "the conditions are met" to start negotiations on a third bailout.

"That's what is at stake, nothing more and nothing less," she said.

But she warned that there would be "no agreement at any price", adding: "We have to make sure the pros outweigh the cons - for Greece's future, for the entire Eurozone and the principles of our collaboration."

Individuals in Greece still cannot access their own money. Greeks can only withdraw 60 euros ($66) per day from banks. However, it seems that as there is a shortage of certain bank notes, individuals can only withdraw $50 per day.

Also aiding gold, the International Monetary Fund trimmed its forecast for global economic growth this year to 3.3% from a previous estimate of 3.55%, citing recent weakness in the United States.

Yellen hints at interest rate hike at the end of the year.

In a speech on Friday to the City Club of Cleveland, Federal Reserve Chair Janet Yellen suggested that an interest rate hike may come before the end of the year.
"Based on my outlook, I expect that it will be appropriate at some point later this year to take the first step to raise the federal funds rate and thus begin normalizing monetary policy," Yellen said in prepared remarks. "I want to emphasize that the course of the economy and inflation remains highly uncertain, and unanticipated developments could delay or accelerate this first step."

Earlier this year, market participants speculated that a rate hike would come in June. However, the general consensus seems to be that the Fed will delay any rate hikes until January 2016, though many doubt it will take that long.

Although most economists had expected that the U.S. central bank would raise interest rates as early as June and then September, an increasing number of analysts and traders doubt any rate hikes will happen until January 2016.

Puerto Rico will certainly be on the Fed's radar going forward. The unincorporated U.S. territory, officially a commonwealth, is struggling with a mounting debt load of nearly $72 billion, which it says it is unable to pay.

Once again, investors remain perplexed about the price action of gold, especially after Greece defaulted on its debt owed to the International Monetary Fund and imposed bank closures and capital controls amid its debt crisis.

It seems the reasons for this have been the strong dollar which many investors have turned to as a safe-haven…and, the apparent price manipulation by bullion banks using Comex.

But, it is unlikely that the price of the yellow metal will remain suppressed for too long as global demand for gold remains strong despite the recent price dip in U.S. dollar terms.

Using the latest statistics provided by the Shanghai Gold Exchange, one can infer that Chinese demand is at record levels for midyear.

According to Lawrence Williams latest figures out of the Shanghai Gold Exchange show that Chinese H1 gold withdrawals are running even higher than in the record 2013 year.

"With a latest week (to June 26th) total of 46.167 tonnes of gold withdrawn from the Shanghai Gold Exchange — again a high level for the time of year — the total for the year-to-date has reached a massive 1,162 tonnes, and assuming withdrawals from the SGE have continued at around the same rate in the final two trading days of the month, we can probably add another 18 tonnes to make gold demand for the full six-month period, as represented by SGE withdrawals, 1,180 tonnes. This will comfortably be a new record for the first half of the year — the previous record was in 2013, with just under 1,100 tonnes withdrawn in H1, and when the full-year figure was 1,197 tonnes."

In Germany one of the major retailers, Degussa is reporting a 50% increase in its sales in the first half of 2015 versus the same period in 2014, citing the ongoing uncertainty of investors with respect to the fragile financial markets as the reason.

"Whilst the acute crisis in Greece is the most important driver for gold demand in Germany at the moment, other reasons have been the general weakness of the euro, which started already at the beginning of the year, as well as the zero interest rate environment," said CEO Wolfgang Wrzesniok-Rossbach.

So, despite what the mainstream media is reporting, gold remains in high demand in many parts of the world.

People have been buying gold to protect their wealth from monetary crisis for thousands of years. It's the only way to keep your wealth safe when banks close, stock markets crash, and the government won't let you touch your own money.

TECHNICAL ANALYSIS

Prices of gold have rebounded from recent lows. If prices hold above $1140 an ounce, I believe we could see a reversal and a major move to the upside.

About the author: David Levenstein is an independent precious metals market commentator with more than 30 years' experience.